

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005

CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2005

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CITY OF PARK HILLS, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2005

List of City Officials

Michael Hellmann, Mayor

Fred Brunner

Angela Finke

Drew Hollenkamp

Steven Ryan

Richard Spoor

Ted Worland

Administration and Departments

Julie Alig, Clerk/Treasurer

Rick Smith, Police Chief

Regis Huth, Fire Chief

Jay Bayer, City Engineer

Ed Jody, Building and Zoning

Dennis Finke, Public Works

Bob Winter, Attorney



Independent Auditor's Report

**To the Honorable Mayor and
Members of the Council
City of Park Hills, Kentucky**

We have audited the accompanying financial statements of the governmental activities of the City of Park Hills, Kentucky (City), as of and for the year ended June 30, 2005, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Park Hills as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2005, on our consideration of the City of Park Hills' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 24 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Park Hills' basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Van Gorder, Walker & Co., Inc.
Covington, Kentucky
November 7, 2005



CITY OF PARK HILLS

1106 Amsterdam Road
Park Hills, Kentucky 41011-2097
(859) 431-6252
Fax (859) 431-6410



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is required supplementary information per the Government Accounting Standards Board (GASB) that provides management with the opportunity to provide both short and long term analysis of the City of Park Hills' financial activities. The MD&A should be read in conjunction with the City's basic financial statements, which begin on page 7.

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The City's fund financial statement provides more detail on the operations of the City than the government wide statements.

Reporting on the City as a Whole

The Statement of Net Assets and Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting and report the City's net assets and changes in them. The City's basic services are considered to be governmental activities and include general government, public safety and public works. Property taxes, insurance premium taxes and payroll taxes/gross receipts license fees finance most of these services.

The assets of the City exceeded its liabilities at June 30, 2005 by \$6,537,240.

Effective July 1, 2003 the City's infrastructure has been historically valued and will be included in the investment in capital assets shown in the Statement of Net Assets.

Assets	
Current and other assets	\$ 871,031
Capital assets	6,042,879
Total Assets	\$ 6,913,910
Liabilities	
Long-term liabilities	\$ 303,656
Other liabilities	73,014
Total Liabilities	376,670
Net Assets	
Invested in capital assets, net of depreciation	5,704,671
Designated future expenditures	132,262
Unrestricted	700,307
Total Net Assets	\$ 6,537,240

Mayor
Michael Hellmann

Councilmembers
Fred Brunner
Angie Finke
Drew Hollenkamp
Steven Ryan
Evelyn Stubbs
Ted Worland

City Clerk/Treasurer
Julie Alig

Legal Counsel
Richard Spoor

Chief of Police
Ricardo Smith

Chief of Fire/EMS
Michael W. Amend

Public Works Director
Dennis Finke

City Engineer
Bayer Becker

**Building Inspector/
Zoning Administrator**
Edward Jody



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Governmental activities decreased the City's net assets by \$312,908. This decrease includes the excess of revenues over expenditures as well as depreciation expense of \$720,475.

One of the most important questions asked about the City's finances is whether the financial position has improved or deteriorated as a result of the year's operations.

General Revenues	
Property taxes	\$ 397,982
Municipal insurance taxes	239,045
Licenses and permits	589,893
Other revenues	34,332
Total General Revenues	<u>1,261,252</u>
Expenses, net of program revenues	
General and administrative	179,663
Public safety	542,239
Public works	758,261
Contracted services	93,997
Total Expenditures	<u>1,574,160</u>
Decrease in Net Assets	<u>\$ (312,908)</u>

The Statement of Revenues, Expenditures and Changes in Fund Balances reflects an increase of \$218,404 of revenues over expenditures.

THE CITY'S FUNDS

The special revenue funds consist of municipal road aid, road tax and vehicle fee funds are all to be used only to replace, maintain or improve the City's roads. The sanitation fund is included in debt service funds and is used for payment of sewer line repairs assessed by Sanitation District No. 1.

Significant changes in the original budget:

In June, 2005 the City Council revised the original budget by ordinance to increase appropriations to prevent budget overruns including the following:

The General Fund Revenues were increased due to a Fifth Third loan in the amount of \$250,000 for the purpose of Property Acquisition.

Significant variances of final budget to actual expenditures:

A new budget item, Property Acquisition, was added under Capital Improvements. A total of \$49,469 was expended for the purchase of properties by the city and a line item of \$12,250 was also included for the demolition of one of these properties.

Due to unforeseen legal fees, the legal work line under Contracts was amended from \$5,000 to \$25,000.

The FEMA grant fund expenditures were not listed as a line item in the original budget. This line was added and the expenditures totaled \$103,822 for the purchase of fire department equipment.

Debt service:

In May, 2005, the City satisfied a 10 year loan from 5/3 Bank in the amount of \$103,069 which was used for financing the improvements to the city building.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Treasurer at, The City of Park Hills, 1106 Amsterdam Road, Park Hills, Kentucky, (859) 431-6252.

Very Truly Yours;

Julie Alig
Park Hills City Clerk/Treasurer

CITY OF PARK HILLS, KENTUCKY Statement of Net Assets June 30, 2005

	Primary Government
	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 697,091
Taxes receivable	11,821
Waste collection receivable	1,069
Other accounts receivable	106,508
Intergovernmental receivable	1,577
Prepaid expenses	9,399
Restricted Assets: Cash-Creighton Fund	33,566
Restricted Assets: Cash-Fire Department Contribution	10,000
Capital assets:	
Land and improvements	73,214
Infrastructure, net of depreciation	5,648,118
Building and improvements, net of depreciation	112,500
Machinery and equipment, net of depreciation	130,631
Vehicles, net of depreciation	78,416
TOTAL ASSETS	6,913,910
LIABILITIES	
Accounts payable	7,274
Other current liabilities	6,823
Deferred revenues	24,365
Current portion of:	
Capital lease payable	12,500
Notes payable	22,052
Long-term liabilities:	
Capital lease payable	237,500
Notes payable	66,156
TOTAL LIABILITIES	376,670
NET ASSETS	
Invested in capital assets, net of related debt	5,704,671
Designated	132,262
Unrestricted	700,307
TOTAL NET ASSETS	\$ 6,537,240

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Legislative and administrative	\$ 196,352	\$ 16,689	\$ -	\$ -	\$ (179,663)
Public safety	614,171	17,791	21,474	32,667	(542,239)
Public works	806,089	-	47,828	-	(758,261)
Contracted services	234,253	140,256	-	-	(93,997)
Total Primary Government	\$ 1,850,865	\$ 174,736	\$ 69,302	\$ 32,667	(1,574,160)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					397,982
Insurance premium and franchise taxes, levied for general purposes					239,045
Licenses and permit fees:					
Payroll/gross receipts license fees					197,592
Road tax revenues					364,587
Vehicle sticker license					22,149
Licenses					5,565
Sanitation surcharge					16,538
Miscellaneous					10,624
Investment earnings					7,170
Total general revenues and special items:					1,261,252
Change in net assets					(312,908)
Net assets, beginning					6,850,148
Net assets, ending					\$ 6,537,240

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2005
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	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash	\$ 230,490	\$ 466,601	\$ 697,091
Receivables:			
Accounts	96,536	9,972	106,508
Taxes	7,349	4,472	11,821
Waste	1,069	-	1,069
Accrued interest	-	-	-
Intergovernmental receivable	1,577	-	1,577
Prepaid expenses	9,399	-	9,399
Restricted assets:			
Cash-Fire Department contribution	10,000	-	10,000
Cash-Creighton Fund	33,566	-	33,566
TOTAL ASSETS	<u>\$ 389,986</u>	<u>\$ 481,045</u>	<u>\$ 871,031</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,299	\$ 5,975	\$ 7,274
Other current liabilities	6,823	-	6,823
Deferred revenues	20,692	3,673	24,365
TOTAL LIABILITIES	<u>28,814</u>	<u>9,648</u>	<u>38,462</u>
FUND BALANCES			
Designated for debt service	-	79,297	79,297
Reserved	52,965	-	52,965
Unreserved, undesignated	308,207	392,100	700,307
TOTAL FUND BALANCES	<u>361,172</u>	<u>471,397</u>	<u>832,569</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 389,986</u>	<u>\$ 481,045</u>	<u>\$ 871,031</u>

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY Reconciliation of the Statement of Net Assets of Governmental Funds to the Balance Sheet June 30, 2005
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Amounts reported for governmental activities in the statement of net assets
are different because:

Total fund balance per balance sheet	\$ 832,569
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,042,879
Long-term liabilities, including capital leases and notes payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(338,208)</u>
Net assets of governmental activities	<u><u>\$ 6,537,240</u></u>

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Special Revenue	Total Governmental Funds
REVENUES			
Taxes	\$ 578,736	\$ 364,587	\$ 943,323
Licenses and permits	267,098	22,149	289,247
Charges for services	152,912	16,538	169,450
Intergovernmental	32,513	47,828	80,341
Grants	1,667	-	1,667
Other revenues	50,141	3,787	53,928
TOTAL REVENUES	1,083,067	454,889	1,537,956
EXPENDITURES			
Current:			
General administrative expenses	139,909	11,000	150,909
Police department expenses	462,574	-	462,574
Fire/rescue department	65,905	-	65,905
Public works expenses	102,594	120,366	222,960
Building and utilities	43,298	-	43,298
Contracted Services	234,254	-	234,254
Capital outlay	263,001	-	263,001
Debt service	1,530	22,052	23,582
TOTAL EXPENDITURES	1,313,065	153,418	1,466,483
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	(229,998)	301,471	71,473
OTHER FINANCING SOURCES (USES)			
Lease proceeds	250,000	-	250,000
Lease payoff	(103,069)	-	(103,069)
TOTAL OTHER FINANCING SOURCES	146,931	-	146,931
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(83,067)	301,471	218,404
FUND BALANCES BEGINNING OF YEAR	444,239	169,926	614,165
FUND BALANCES END OF YEAR	\$ 361,172	\$ 471,397	\$ 832,569

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balance-total governmental funds	\$ 218,404
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$317,885) was less than depreciation expense (\$720,475) in the current period.	(402,590)
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The repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. However, the repayment of long-term has no effect on net assets. The amount of principal payments is included in the governmental funds in the current period.	121,278
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Proceeds of a capital lease provide current financial resources in the governmental funds, but are listed as liabilities in the statement of net assets in the government-wide financial statements.	<u>(250,000)</u>
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Change in net assets of governmental activities	<u><u>\$ (312,908)</u></u>
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See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Park Hills, Kentucky (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Park Hills operates under a Mayor and Council form of government. The government is governed by an elected mayor and six council members. As required by generally accepted accounting principles these financial statements represent the primary government. The City has no component units or entities for which the government is considered to be financially accountable.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expense and program revenues associated with a distinct functional activity. Program revenues include: charges for services, which report fees, fines and forfeitures, and other charges to users of the City's services; operating grants and contributions which finance annual operating activities including restricted investment income; and capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than expenditures.

Fund Financial Statements

Fund financial statements, as applicable, are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

Funds Types

The City reports the following governmental funds:

General Fund

This fund is the government's primary operating fund. This fund accounts for all financial resources of the general government not accounted for in another fund.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains special revenue funds for Municipal Road Aid Funds, Road Tax Funds, and Vehicle Fee Funds. These funds are used to account for the receipt and disbursement of funds in accordance with Kentucky Revised Statutes for KMAF and to account for the use of a vehicle sticker license for road maintenance as stated in the ordinance.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due. Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

If applicable, operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are taxes, interest and charges for services. Fines and licenses and permits are not susceptible to accrual because generally, they are not measurable until received in cash.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental funds. All annual appropriations continue in effect until a new budget is adopted.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired.

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Banker's acceptances.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2005. The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department agent but not in the entity's name.

FUND	Category			Fair Value
	1	2	3	
General	\$ 230,490	\$ -	\$ -	\$ 230,490
Special Revenue	387,304	-	-	387,304
Debt Service	79,297	-	-	79,297
Totals	<u>\$ 697,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697,091</u>

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items.

Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. No liability is recorded for nonvested accumulating rights to receive sick pay benefits. There was no liability at June 30, 2005.

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year.

The City had one budget amendment during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the council.

NOTE C – DEPOSITS

The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2005, the depository bank had securities pledged to fully collateralize the bank balance.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE D – RECEIVABLES

Property values are assessed as of January 1. Taxes are levied on July 1 and are due and payable on or before August 31. The City bills and collects its own property taxes. An adjustment is made at June 30 to recognize property taxes levied during the year which are still receivable at year end. A deferred revenue account is established for delinquent taxes to the extent that their collectibility is improbable.

NOTE E – FIXED ASSETS

The following is a summary of changes in the general fixed assets account group during the fiscal year.

	June 30, 2004	Additions	Deletions	June 30, 2005
Land	\$ 11,495	\$ 61,719	\$ -	\$ 73,214
Buildings and Improvements	255,927	-	-	255,927
Infrastructure	12,078,295	57,687	-	12,135,982
Vehicles	309,219	65,607	-	374,826
Equipment	442,585	132,872	-	575,457
Subtotal	13,097,521	317,885	-	13,415,406
Accumulated Depreciation	(6,652,052)	(720,475)	-	(7,372,526)
Total assets, net	<u>\$ 6,445,469</u>	<u>\$ (402,590)</u>	<u>\$ -</u>	<u>\$ 6,042,879</u>

NOTE F – GENERAL LONG TERM DEBT

General long-term debt consists of the following:

Capital Leases

The City executed a lease-purchase agreement in July 2000 for the purchase of equipment and renovations to the City Building at a total cost of \$150,000. Term of the lease-purchase agreement is 10 years at an interest rate of 5.95%. This lease was refinanced in April 2002 at a 4.57% interest rate. At June 30, 2004 the balance of this lease principle was \$99,226.

The City executed a lease agreement in May of 2005 for the refinancing of the April 2002 obligation and for the purchase of real property in the City of Park Hills at a total cost of \$250,000. Terms of the lease-purchase agreement are 10 years at an annual interest

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

rate of 4.5%. The remaining April 2002 lease-purchase obligation of \$99,226 plus \$3,843 in interest was paid in full from the proceeds of May 2005 lease agreement.

Annual lease payment requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 12,500	\$ 12,035	\$ 24,535
2007	12,500	10,548	23,048
2008	12,500	9,986	22,486
2009	12,500	9,423	21,923
2010	12,500	8,861	21,361
Thereafter	<u>187,500</u>	<u>38,700</u>	<u>226,200</u>
Totals	<u>\$ 250,000</u>	<u>\$ 89,553</u>	<u>\$ 339,553</u>

Note Payable

The City executed a 0% ten-year \$220,520 note effective July 1, 1995 with the Sanitation District in accordance with a Municipal Merger Agreement. The City is to make annual equal payments to the District in the amount of \$22,052 beginning on January 1, 2000. Annual debt service requirements are as follows:

Year Ending	Principal
2,006	\$ 22,052
2,007	22,052
2,008	22,052
2,009	<u>22,052</u>
Total	<u>\$ 88,208</u>

The Sanitation District is collecting the fee on a quarterly basis based upon water usage in the City of Park Hills to satisfy this debt obligation.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

The following changes occurred in the General Long-Term Debt Account Group during the year ended June 30, 2005:

	Balance June 30, 2004	New Issues	Principal Payments	Balance June 30, 2005
Sanitation note	\$ 110,260	\$ -	\$ 22,052	\$ 88,208
Capital leases	99,226	250,000	99,226	250,000
Totals	<u>\$ 209,486</u>	<u>\$ 250,000</u>	<u>\$ 121,278</u>	<u>\$ 338,208</u>

NOTE G – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not result in a liability to the City.

NOTE H – EMPLOYEE RETIREMENT SYSTEMS

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Non-hazardous Contributions - For the year ended June 30, 2005, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2005, participating employers contributed 8.48% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2005 was 8.48% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2005, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2005 participating employers contributed 22.08% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2005 was 22.08% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the City the current and previous three years is as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 65,427	100%
2004	55,764	100%
2003	70,549	100%
2002	70,550	100%

NOTE I – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF PARK HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has effectively managed risk through various employee education and prevention programs.

NOTE K – GASB 34

State and local governmental entities were required to change their financial reporting with the adoption of GASB Statement No. 34. The City has adopted this Statement as of July 1, 2003. The new financial reporting model requires financial statements integrated with government-wide reporting and enhanced fund reporting. It also requires a section for management's discussion and analysis (MD&A) and the reporting of the City's infrastructure and depreciation.

CITY OF PARK HILLS, KENTUCKY
COMBINED BUDGETARY COMPARISON SCHEDULE - BUDGET
AND ACTUAL

Year Ended June 30, 2005

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 584,875	\$ 578,736	\$ (6,139)	\$ 368,500	\$ 364,587	\$ (3,913)
Licenses and permits	232,375	261,448	29,073	24,000	22,149	(1,851)
Intergovernmental	32,679	32,513	(166)	46,076	47,828	1,752
Charges for services	162,036	152,912	(9,124)	17,000	16,538	(462)
Building and zoning fees	7,500	5,650	(1,850)	-	-	-
Grants	-	1,667	1,667	-	-	-
Other revenues	50,650	50,141	(509)	4,000	3,787	(213)
TOTAL REVENUES	1,070,115	1,083,067	12,952	459,576	454,889	(4,687)
EXPENDITURES						
Current:						
Administrative expenses	127,922	139,909	(11,987)	11,000	11,000	-
Police department expenses	540,680	462,574	78,106	-	-	-
Fire/rescue department	77,429	65,905	11,524	-	-	-
Public works expenses	90,050	102,594	(12,544)	506,543	120,366	386,177
Building and utilities	49,400	43,298	6,102	-	-	-
Contract Services	210,180	234,254	(24,074)	1,000	-	1,000
Capital outlay	86,492	263,001	(176,509)	-	-	-
Debt service	-	1,530	(1,530)	22,052	22,052	-
TOTAL EXPENDITURES	1,182,153	1,313,065	(130,912)	540,595	153,418	387,177
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	(112,038)	(229,998)	(117,960)	(81,019)	301,471	382,490
OTHER FINANCING SOURCES						
Lease proceeds/(payoff), net	-	146,931	146,931	-	-	-
Carryover from prior year	114,750	-	(114,750)	-	-	-
TOTAL OTHER FINANCING SOURCES	114,750	146,931	32,181	-	-	-
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	2,712	(83,067)	(85,779)	(81,019)	301,471	382,490
FUND BALANCES AT BEGINNING OF YEAR	444,239	444,239	-	169,926	169,926	-
FUND BALANCES AT END OF YEAR	\$ 446,951	\$ 361,172	\$ (85,779)	\$ 88,907	\$ 471,397	\$ 382,490

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY
GENERAL FUND - DETAILED BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
Year Ended June 30, 2005

	2005			2004
	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES				
TAXES				
Property taxes	\$ 405,075	\$ 397,982	\$ (7,093)	\$ 372,426
Payroll/gross receipts taxes	179,800	180,754	954	190,526
TOTAL TAXES	584,875	578,736	(6,139)	562,952
LICENSES AND PERMITS				
Occupational license	15,000	16,838	1,838	16,020
Municipal insurance tax	182,500	197,378	14,878	185,157
Franchise fees	30,500	41,667	11,167	30,319
Yard sale permits	300	130	(170)	295
Animal licenses	600	1,135	535	725
Beer and liquor licenses	3,475	4,300	825	2,650
Building and zoning fees	7,500	5,650	(1,850)	11,654
TOTAL LICENSES AND PERMITS	239,875	267,098	27,223	246,820
INTERGOVERNMENTAL				
Base court, admin and coal severance	11,000	11,039	39	4,694
Police incentive pay	21,679	21,474	(205)	18,297
TOTAL INTERGOVERNMENTAL	32,679	32,513	(166)	22,991
CHARGES FOR SERVICES				
Trash collection fees	141,286	140,256	(1,030)	144,721
Police protection	20,750	11,431	(9,319)	1,758
Rescue squad receipts	-	1,225	1,225	20,633
TOTAL CHARGES FOR SERVICES	162,036	152,912	(9,124)	167,112
OTHER REVENUES				
Police fines	6,000	5,134	(866)	6,130
Interest income	4,000	3,383	(617)	4,891
Insurance claim	-	-	-	6,164
Creighton-Fire Dept. vehicle	40,000	31,000	(9,000)	29,855
Grants	-	1,667	1,667	89,201
Miscellaneous	650	10,624	9,974	11,732
TOTAL OTHER REVENUES	50,650	51,808	1,158	147,973
TOTAL REVENUES	1,070,115	1,083,067	12,952	1,147,848
EXPENDITURES				
General administration expenses	127,922	139,909	(11,987)	193,424
Police department expenses	540,680	462,574	78,106	430,150
Fire/rescue department expenses	77,429	65,905	11,524	85,758
Public works expenses	90,050	102,594	(12,544)	89,350
Building and utilities	49,400	43,298	6,102	48,002
Contract Services	210,180	234,254	(24,074)	223,986
Capital outlay	86,492	263,001	(176,509)	61,730
Debt service	-	1,530	(1,530)	39,111
TOTAL EXPENDITURES	1,182,153	1,313,065	(130,912)	1,171,511
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	(112,038)	(229,998)	(117,960)	(23,663)
OTHER FINANCING SOURCES				
Carry over from prior year	114,750	-	(114,750)	-
Capital lease proceeds/(payoff), net	-	146,931	146,931	-
FUND BALANCE BEGINNING OF YEAR	444,239	444,239	-	467,902
FUND BALANCE END OF YEAR	\$ 446,951	\$ 361,172	\$ (85,779)	\$ 444,239

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS June 30, 2005
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	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2005	2004
ASSETS						
Cash	\$ 10,730	\$ 41,264	\$ 338,962	\$ 75,645	\$ 466,601	\$ 160,457
Taxes receivable	-	-	4,472	-	4,472	6,359
Due from other funds	-	-	-	-	-	317
Accounts receivable	4,142	2,178	-	3,652	9,972	9,152
TOTAL ASSETS	<u>\$ 14,872</u>	<u>\$ 43,442</u>	<u>\$ 343,434</u>	<u>\$ 79,297</u>	<u>\$ 481,045</u>	<u>\$ 176,285</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 5,975	\$ -	\$ -	\$ -	\$ 5,975	\$ -
Deferred revenue	-	-	3,673	-	3,673	6,359
TOTAL LIABILITIES	5,975	-	3,673	-	9,648	6,359
FUND BALANCE						
Designated	-	-	-	79,297	79,297	84,060
Unreserved, undesignated	8,897	43,442	339,761	-	392,100	85,866
TOTAL FUND BALANCE	<u>8,897</u>	<u>43,442</u>	<u>339,761</u>	<u>79,297</u>	<u>471,397</u>	<u>169,926</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 14,872</u>	<u>\$ 43,442</u>	<u>\$ 343,434</u>	<u>\$ 79,297</u>	<u>\$ 481,045</u>	<u>\$ 176,285</u>

See the accompanying notes to the financial statements.

CITY OF PARK HILLS, KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	Municipal Aid Fund	Vehicle Fee Fund	Road Tax Fund	Debt Service Fund	Totals	
					2005	2004
REVENUES						
Taxes	\$ -	\$ -	\$ 364,587	\$ -	\$ 364,587	\$ 333,667
Licenses	-	22,149	-	-	22,149	23,262
Intergovernmental	47,828	-	-	-	47,828	45,800
Charges for services	-	-	-	16,538	16,538	16,399
Interest income	251	317	2,468	751	3,787	3,508
					-	-
TOTAL REVENUES	48,079	22,466	367,055	17,289	454,889	422,636
EXPENDITURES						
General government	2,000	4,000	5,000	-	11,000	11,527
Public works	62,679	-	57,687	-	120,366	287,079
Debt service	-	-	-	22,052	22,052	22,052
Interest	-	-	-	-	-	3,868
TOTAL EXPENDITURES	64,679	4,000	62,687	22,052	153,418	324,526
EXCESS/ (DEFICIENCY) OF REVENUES OVER/(UNDER)EXPENDITURES	(16,600)	18,466	304,368	(4,763)	301,471	98,110
OTHER FINANCING SOURCES (USES)						
Lease proceeds (payments)	-	-	-	-	-	(350,000)
Transfers (to) from other funds	-	-	-	-	-	19,374
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	(330,626)
EXCESS/ (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER)EXPENDITURES	(16,600)	18,466	304,368	(4,763)	301,471	(232,516)
FUND BALANCES						
BEGINNING OF YEAR	25,497	24,976	35,393	84,060	169,926	402,442
FUND BALANCES END OF YEAR	\$ 8,897	\$ 43,442	\$ 339,761	\$ 79,297	\$ 471,397	\$ 169,926

See the accompanying notes to the financial statements



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
Members of Council of
City of Park Hills, Kentucky

We have audited the financial statements of the governmental activities of the City of Park Hills, Kentucky (City) as of and for the year ended June 30, 2005, which comprises the City of Park Hills' basic financial statements and have issued our report thereon dated November 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Park Hills' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Park Hills' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Lack of Segregation of Duties

Condition: We noted that, at times, due to the size of the City and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: The City has employed an outside payroll agency to prepare paychecks and to file payroll tax returns. Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Park Hills' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Van Gorder, Walker & Co., Inc.
Covington, Kentucky
November 7, 2005